

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	114.91	3.10	7.30	125.31	3.10	7.30	125.31	125.31
Personal Services	5,345,610	513,585	119,007	5,978,202	514,649	113,343	5,973,602	11,951,804
Operating Expenses	5,491,564	973,068	4,660,104	11,124,736	1,047,922	4,689,869	11,229,355	22,354,091
Equipment	38,651	0	0	38,651	0	0	38,651	77,302
Local Assistance	556,690,550	(43,162,127)	(4,449,816)	509,078,607	(50,348,822)	7,752,493	514,094,221	1,023,172,828
Grants	88,069,720	16,874,513	6,398,056	111,342,289	21,345,429	6,483,056	115,898,205	227,240,494
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$655,636,095	(\$24,800,961)	\$6,727,351	\$637,562,485	(\$27,440,822)	\$19,038,761	\$647,234,034	\$1,284,796,519
General Fund	560,554,778	(42,729,269)	(8,696,434)	509,129,075	(49,910,740)	3,248,645	513,892,683	1,023,021,758
State/Other Special	1,092,119	(148,554)	4,098,000	5,041,565	(147,746)	4,360,000	5,304,373	10,345,938
Federal Special	93,898,407	18,167,653	11,325,785	123,391,845	22,708,455	11,430,116	128,036,978	251,428,823
Proprietary	90,791	(90,791)	0	0	(90,791)	0	0	0
Total Funds	\$655,636,095	(\$24,800,961)	\$6,727,351	\$637,562,485	(\$27,440,822)	\$19,038,761	\$647,234,034	\$1,284,796,519

Agency Description

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) provides distribution of funding and services to Montana's school-age children and to teachers in approximately 450 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services.

Supplemental Appropriation Description

The Executive Budget includes \$3.5 million in supplemental Base aid authority for fiscal 2003.

Base aid appropriation authority was established by the 57th legislature in HB 2 at \$440.8 million in fiscal 2002 and at \$443.9 million in fiscal 2003. In fiscal 2002, actual spending was \$2.1 million less than appropriated. Since Base aid authority is biennial this amount is available for use in fiscal 2003. However subsequent information regarding fiscal 2003 expenditures and common school trust revenues has become available.

The Base aid amounts authorized by the 57th legislature were based on estimates of the base aid components for each districts budget including taxable value and non-levy revenues, a major component of which are HB 124 block grants. HB 124 block grants are payments to school districts that are made to reimburse districts for revenues that now flow to the state, such as motor vehicle taxes and fees, and personal property reimbursements. The August 2002 special session reduced the amount of fiscal 2003 school district block grants in light of information regarding an error in the way vehicle taxes were calculated in the initial year. In addition, new information for fiscal 2003 taxable values and non-levy revenues became available. These changes increased guaranteed tax base (GTB) aid in fiscal 2003 by \$3.1 million, for both the district general fund component and the retirement component of Base aid. In addition, there are savings of approximately \$0.2 million in direct state aid as a result of fewer ANB than had been projected at the end of the regular session.

HB 7, passed during the August special session, created a new state special account from which a portion of Base aid is to be paid in fiscal 2003 and beyond. The new state special guarantee account receives interest and income (I&I) from the common school trust and trust lands. In fiscal 2003, these revenues are to be used to pay for two things: 1) interest on the SB 495 loan from the coal tax trust to the common school trust, and 2) Base aid. The net authority to pay Base aid out of the guarantee fund is statutorily appropriated, i.e. the amount available for Base aid is limited to the amount of net common school trust interest and income deposited in the fund, after the interest payment for the SB495 loan has been deducted.

During the August special session, it was expected that \$51.7 million in I&I revenue would be deposited in the guarantee account in fiscal 2003. HB 2 general fund appropriation authority for Base aid was reduced accordingly, by \$51.7 million. This amount, however, was not net of the SB 495 interest payment of approximately \$3.4 million, and thus the reduction in general fund Base aid authority was overstated.

Figure 1
BASE Aid Supplemental
Fiscal 2003

BASE Aid Component	Appropriated	Expected Spending	Difference Appropriation less Spending
General Fund			
Base Aid Authority carried over from Fiscal 2002	\$ 2,067,104	\$ -	\$ 2,067,104
Direct State Aid from General Fund	271,788,386	273,498,731	(1,710,346)
General Fund GTB	99,945,902	101,737,909	(1,792,007)
Retirement GTB	20,454,712	21,796,641	(1,341,929)
Total Base Aid	394,256,103	397,033,281	(2,777,178)
Guarantee Fund Analysis			
	Statutorily Appropriated	Expected Revenue	Difference
Total Fiscal 2003 Revenue in Guarantee Fund	\$ 49,901,000	\$ 51,175,245	\$ 1,274,245
Fiscal 2002 Timber revenue available for Base Aid	\$ 1,800,000	\$ 1,822,162	\$ 22,162
Interest to pay SB495 loan	-	(3,245,683)	(3,245,683)
Net Available for BASE Aid	<u>\$ 51,701,000</u>	<u>\$ 49,751,724</u>	<u>\$ (1,949,276)</u>

In November 2002, a new estimate of fiscal 2003 I&I income in the guarantee fund is available as adopted by the Revenue and Transportation Interim committee. After deducting SB 495 loan interest, the net amount expected to be available for Base aid is \$49.8 million, \$1.9 million less than the August special session estimate. The BASE Aid supplement is the revenue shortfall in the guarantee account plus the adjustments due to new information on taxable values, non-levy revenues, and ANB counts. As shown in

figure 1, the appropriated BASE Aid amount in the general fund is lower than expected BASE Aid spending in the general fund by \$2.8 million. This is the amount of the expected supplemental

LFD ISSUE

The Executive Budget contains a supplemental of \$3.5 million compared with the supplemental of \$2.8 million explained above. This is because the Executive Budget assumes lower I&I revenue in the guarantee fund. The choice of which supplemental is the correct one is critical if school districts are to receive the statutorily defined amount of Base aid in fiscal 2003. If both estimates of net available I&I revenue in the guarantee fund are too high, the available Base aid supplemental request would be too low, i.e. after spending the general fund Base aid authority, not enough cash would be available in the guarantee account (due to insufficient I&I revenues) to pay the required amount of Base aid costs.

The amount of I&I revenue available for Base aid deposited in the guarantee fund will not be known until the end of fiscal 2003, well after the 2003 legislative session is finished. In the absence of a special session, the Office of Public Instruction (OPI) would have only one choice in the event of insufficient I&I revenues: borrow the cash from the general fund. However, OPI would have no means with which to pay back the loan.

The legislature may want to consider the following option in case there is an unforeseen revenue shortfall in the guarantee fund in fiscal 2003. In HB 3, contingency language could be inserted that increases general fund Base aid appropriation authority up to an amount that is virtually certain to account for possible shortfalls in fiscal 2003 I&I revenues available for Base aid. Based on past history of I&I revenues this upper limit may be as high as \$8.0 million. This is twice the standard deviation of historical I&I revenues from 1990 through fiscal 2002, and represents a 5 percent probability that revenues will be short of the estimate by more than this amount. In future biennia, the legislature may want to increase the predictability of I&I revenues in the final year of the biennium. This could be done by depositing I&I revenue in the guarantee fund on a monthly basis rather than approximately 1/3rd in February and 2/3rds in June.

Executive Recommended Legislation

The Executive Budget is dependent upon passage of several pieces of legislation:

- Average ANB for calculating district general fund budgets in fiscal 2005
- Increase Basic and per-ANB entitlements, and reduce the direct state aid percentage
- Partially eliminate district transportation HB 124 block grants and use to fund increases in state transportation aid
- Eliminate school facility HB 124 block grants and use to fund increases in the school facility entitlements
- Use Treasure State Endowment Program monies to increase funding for the school facility reimbursement program
- Institute a teacher loan repayment program
- Reallocate timber revenue to pay for Base aid
- Require district funds other than the general fund to pay for their own retirement costs
- Eliminate growth in all remaining district and county HB 124 block grants.

Each proposal is discussed in the program narratives that follow.

Agency Discussion

<p align="center">Department of the Office of Public Instruction</p> <p align="center">Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ OPI's Administration budget increases by \$12.4 million during the 2005 biennium compared with fiscal 2002. \$12.3 million is federal funds for testing, and implementation of the "No Child Left Behind" Act. ○ OPI's budget for distribution to schools increases by \$51.3 million during the 2005 biennium, virtually all of which is federal funds. The executive proposes: <ul style="list-style-type: none"> ○ To increase the amount distributed to schools from state sources by only \$152 during the 2005 biennium compared with fiscal 2002. ○ To increase state support by increasing entitlements, school facility reimbursements, transportation and 3-year averaging of enrollments. ○ To reduce state support by reducing direct state aid, HB 124 block grants, teachers' retirement contributions and technology purchases. ○ To utilize more state special funds rather than the general fund to pay for school costs. ○ To spend increases in federal funds of \$23.4 million in fiscal 2004 and \$27.9 million in fiscal 2005 primarily on teacher and principal training, special education, and several new programs associated with the "No Child Left Behind" Act.
<p align="center">Major LFD Issues</p>
<ul style="list-style-type: none"> ○ The executive proposal increases school funding complexity by utilizing state accounts other than the general fund to distribute money to schools. ○ The executive is requesting a Base aid supplemental for fiscal 2003. Because Base aid payments are now partly dependent upon the revenue deposited in the new state special guarantee account, the correct amount for the supplemental is highly uncertain. If the supplemental is set too low, OPI may not have a way to pay for Base aid in fiscal 2003. ○ The executive proposal decreases Base aid below fiscal 2002 levels and increases state support for non-classroom expenditures. ○ The executive's proposal regarding the redistribution of HB 124 block grant monies, as well as its retirement proposal, will result in large shifts in property taxes between districts and counties, although the impact on property taxes statewide is small. ○ The executive's proposal to require funds other than the district general fund to pay the retirement costs associated with each fund's own salaries, may result in service reductions and /or tax increases for other district funds ○ The executive's retirement proposal may violate the federal prohibition on the use of federal funds to supplant local funds ○ The executive's proposal on averaging ANB in fiscal 2005 will increase present law costs in the 2007 biennium. ○ The executive proposal does not account for the impact of the fiscal 2004 statewide reappraisal of property values on state guaranteed tax base costs.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow. OPI has two programs, state level activities, more commonly known as OPI administration, and local education activities, more commonly known as the distribution to schools program. OPI administration receives nearly 25 percent of its funding from the general fund and state special revenue accounts. The remainder of the OPI administration program is funded by federal funds. The distribution to schools program is funded primarily from general fund although federal revenue is a growing source of funds. Administration utilizes 2.6 percent of the funds requested and the remainder flows to school districts.

Total Agency Funding 2005 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
State Level Activities	\$ 8,995,532	\$ 387,938	\$ 24,568,309	\$ 33,951,779	2.6%
Local Education Activities	1,014,026,226	9,958,000	226,860,514	1,250,844,740	97.4%
Grand Total	<u>\$ 1,023,021,758</u>	<u>\$ 10,345,938</u>	<u>\$ 251,428,823</u>	<u>\$1,284,796,519</u>	<u>100.0%</u>

The following table shows a biennial comparison of proposed agency expenditures in the 2005 biennium and the 2003 biennium. Total spending for both programs in OPI as budgeted in HB 2 will fall approximately \$7 million between the two biennia. General fund spending decreases \$53.2 million, federal funds increase \$38.2 million, state special funds increase by \$8.3 million and proprietary fund decrease by \$0.2 million. This gives a misleading picture of the total agencies budget because not shown is spending from the guarantee fund, which statutorily appropriates common school interest and income and does not appear in HB 2. In fiscal 2002, this money was appropriated in the general fund in HB 2. Beginning in fiscal 2003, the authority to spend this money out of the general fund was removed and placed in the new state special guarantee account.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	118.01	7.30	125.31	118.01	7.30	125.31	114.91	125.31
Personal Services	5,859,195	119,007	5,978,202	5,860,259	113,343	5,973,602	10,685,329	11,951,804
Operating Expenses	6,464,632	4,660,104	11,124,736	6,539,486	4,689,869	11,229,355	13,874,582	22,354,091
Equipment	38,651	0	38,651	38,651	0	38,651	95,752	77,302
Local Assistance	513,528,423	(4,449,816)	509,078,607	506,341,728	7,752,493	514,094,221	1,068,346,646	1,023,172,828
Grants	104,944,233	6,398,056	111,342,289	109,415,149	6,483,056	115,898,205	198,629,277	227,240,494
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$630,835,134	\$6,727,351	\$637,562,485	\$628,195,273	\$19,038,761	\$647,234,034	\$1,291,631,586	\$1,284,796,519
General Fund	517,825,509	(8,696,434)	509,129,075	510,644,038	3,248,645	513,892,683	1,076,198,614	1,023,021,758
State/Other Special	943,565	4,098,000	5,041,565	944,373	4,360,000	5,304,373	2,034,739	10,345,938
Federal Special	112,066,060	11,325,785	123,391,845	116,606,862	11,430,116	128,036,978	213,207,442	251,428,823
Proprietary	0	0	0	0	0	0	190,791	0
Total Funds	\$630,835,134	\$6,727,351	\$637,562,485	\$628,195,273	\$19,038,761	\$647,234,034	\$1,291,631,586	\$1,284,796,519

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 13 - Statewide Student Assessment										
06	0.00	253,250	0	0	253,250	0.00	263,250	0	0	263,250
DP 32 - Community Service Grant Program										
09	0.00	0	0	250,000	250,000	0.00	0	0	250,000	250,000
DP 33 - Federal Assessment Requirement										
06	5.00	0	0	3,700,000	3,700,000	5.00	0	0	3,700,000	3,700,000
DP 34 - National Assessment of Educational Progress										
06	1.00	0	0	75,000	75,000	1.00	0	0	78,000	78,000
DP 35 - Advanced Placement Incentive										
06	0.50	0	0	50,154	50,154	0.50	0	0	50,123	50,123
DP 36 - Character Education										
06	1.30	0	0	75,000	75,000	1.30	0	0	75,000	75,000
DP 39 - Reading First										
06	1.50	0	0	610,000	610,000	1.50	0	0	625,000	625,000
DP 39 - Reading First - Federal Title I, Part B, Subpart 1										
09	0.00	0	0	2,890,000	2,890,000	0.00	0	0	2,975,000	2,975,000
DP 40 - REI / Rural Low Income Schools										
06	0.00	0	0	24,108	24,108	0.00	0	0	24,108	24,108
DP 41 - REI / Rural Low Income Schools										
09	0.00	0	0	458,056	458,056	0.00	0	0	458,056	458,056
DP 43 - Title IV 21st Century Community Learning Centers										
06	1.00	0	0	140,000	140,000	1.00	0	0	140,000	140,000
DP 43 - Title IV 21st Century Community Learning Centers										
09	0.00	0	0	2,800,000	2,800,000	0.00	0	0	2,800,000	2,800,000
DP 44 - Troops to Teachers										
06	0.00	0	0	253,467	253,467	0.00	0	0	254,829	254,829
DP 7020 - Reduction to balance the budget										
06	(3.00)	(401,868)	0	0	(401,868)	(3.00)	(407,098)	0	0	(407,098)
DP 8210 - Advisory Council recommendation on Averaging ANB (Requires Legislation)										
09	0.00	(150,000)	0	0	(150,000)	0.00	6,929,448	0	0	6,929,448
DP 8220 - Advisory Council rec.: Transportation & some HB124 (Requires Legislation)										
09	0.00	0	0	0	0	0.00	0	0	0	0
DP 8230 - Teacher (Requires Legislation)										
09	0.00	330,000	0	0	330,000	0.00	660,000	0	0	660,000
DP 8240 - Fund (Requires Legislation)										
09	0.00	(4,098,000)	4,098,000	0	0	0.00	(4,360,000)	4,360,000	0	0
DP 8250 - Reallocate (Requires Legislation)										
09	0.00	(1,000,000)	0	0	(1,000,000)	0.00	(900,000)	0	0	(900,000)
DP 8270 - Retire (Requires Legislation)										
09	0.00	(4,275,000)	0	0	(4,275,000)	0.00	(3,555,000)	0	0	(3,555,000)
DP 8280 - School (Requires Legislation)										
09	0.00	820,283	0	0	820,283	0.00	5,163,354	0	0	5,163,354
DP 8290 - Adjust HB 124 block grants (Requires Legislation)										
09	0.00	(175,099)	0	0	(175,099)	0.00	(545,309)	0	0	(545,309)
Total	7.30	(\$8,696,434)	\$4,098,000	\$11,325,785	\$6,727,351	7.30	\$3,248,645	\$4,360,000	\$11,430,116	\$19,038,761

Elected Officials New Proposal

As an elected official, The Superintendent of the Office of Public Instruction is authorized in statute to bring new proposals to the legislature, even though the new proposals were not included in the executive budget. The following new proposals were presented to the executive but were not approved.

- Indian Education for All - This proposal adds \$60,000 per year to OPI administration costs for:
 - Development of model curriculum guides incorporating American Indian content into, and aligned with, all content and performance standards (similar to the Indian Law Related Education.)
 - Creation of a Native American Studies (NAS) curriculum council made up of local district Indian Education Directors (or their designees) and Tribal Education Directors (or their designees).
 - Printing, publishing, postage and mailing costs for publications and model curriculum to all schools

- National Board Certification - This proposal is for the payment of stipends in the amount of \$3,000/teacher to teachers who achieve certification from the National Board for Professional Teaching Standards. OPI estimates that 15 teachers will be eligible for the stipend in fiscal 2004 and 25 teachers in fiscal 2005.

The 2001 Legislature approved HB 42, which provides for the payment of one-time stipends to teachers who achieve certification from the National Board for Professional Teaching Standards. Stipends in the amount of \$3,000 per teacher were paid to eight teachers in fiscal 2002. OPI expects to pay stipends to 3 teachers in fiscal 2003.

The fiscal 2002 present law base includes \$24,000 for the payment of stipends. This proposal requests to increase the stipends by \$21,000 in fiscal 2004 and by \$51,000 in fiscal 2005. Under this proposal, the total amount paid out in stipends would be \$45,000 in fiscal 2004 and \$75,000 in fiscal 2005.

- K-12 School Funding - This proposal requests \$91.1 million to implement the following proposals:
 - Increase basic and per-ANB entitlements by the projected change in Employment Cost Index for compensation, 3.7 percent for fiscal 2004 and 3.2 percent for fiscal 2005. State costs would increase by \$30.7 million for the biennium.
 - Allow school districts to fund the cost of employee health insurance in excess of \$300/month/employee through the county retirement levy. The amount charged to the county fund could not exceed the annual health insurance benefit provided for state employees less \$3600. The increase in state costs is estimated to be \$9.8 million for the biennium.
 - Allow schools with declining enrollment to calculate ANB using an enrollment average for the 3 previous school years. For schools with growing enrollment, the ANB would be calculated using the previous year's enrollment count. This proposal is estimated to cost the state \$25.0 million for the biennium.
 - Establish a loan repayment program for teachers who are teaching in "critical teacher shortage areas." These shortage areas would be defined both in terms of academic subject areas and geographic areas. The maximum student loan repayment assistance that an individual could receive would be \$12,000. State costs would increase by \$1.1 million for the biennium.
 - Raise the benefit calculation from 1.67 percent to 2 percent for employees who retire after June 30, 2005 with 30 years or more of service. The cost to the state of this proposal is \$330,000 for the biennium.
 - Provide a payment of \$1,000 per certified FTE to each school district. In fiscal 2001, school districts reported 12,097 FTE certified staff. The cost to the state is \$24.2 million in the biennium.
- Special Education - This proposal increases state support of special education by \$5.3 million over the 2005 biennium.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	114.91	3.10	7.30	125.31	3.10	7.30	125.31	125.31
Personal Services	5,345,610	513,585	119,007	5,978,202	514,649	113,343	5,973,602	11,951,804
Operating Expenses	5,363,314	866,308	4,660,104	10,889,726	941,162	4,689,869	10,994,345	21,884,071
Equipment	38,651	0	0	38,651	0	0	38,651	77,302
Local Assistance	19,301	0	0	19,301	0	0	19,301	38,602
Grants	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$10,766,876	\$1,379,893	\$4,779,111	\$16,925,880	\$1,455,811	\$4,803,212	\$17,025,899	\$33,951,779
General Fund	4,374,491	266,896	(148,618)	4,492,769	272,120	(143,848)	4,502,763	8,995,532
State/Other Special	185,369	8,196	0	193,565	9,004	0	194,373	387,938
Federal Special	6,116,225	1,195,592	4,927,729	12,239,546	1,265,478	4,947,060	12,328,763	24,568,309
Proprietary	90,791	(90,791)	0	0	(90,791)	0	0	0
Total Funds	\$10,766,876	\$1,379,893	\$4,779,111	\$16,925,880	\$1,455,811	\$4,803,212	\$17,025,899	\$33,951,779

Program Description

The State Level Activities – OPI Administration Program provides leadership and coordination of services to a variety of school and public groups; staff provides assistance to the Superintendent of Public Instruction in performing the duties prescribed. The program:

- Supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board;
- Is responsible for the distribution and accounting of state and federal funds provided to school districts;
- Provides operational support to OPI; and
- Provides assistance and information to school districts.

The program also administers all federal grants received by OPI, including the budgets for:

- Curriculum assistance;
- Special education;
- ESEA, Title I, II, III, IV, and VI administration, and
- Other educational services including drivers' education, school food services, and audiology.

Program Narrative

OPI Administration Major Budget Highlights	
<ul style="list-style-type: none"> ○ OPI's Administration budget increases by \$12.4 million during the 2005 biennium compared with fiscal 2002. \$12.3 million is federal funds for testing, and implementation of the "No Child Left Behind" Act. ○ The executive recommends the removal of 3 FTE from general fund support and places the positions under federal support ○ The executive recommends increases 7.3 FTE in the department funded by federal funds ○ The administration budget reduces general fund support by \$808,966 for the 2005 biennium. However, statewide adjustments increase spending authority. The net result is that spending is that general fund spending is \$246,550 higher in the 2005 biennium than in fiscal 2002. 	
Major LFD Issues	
<ul style="list-style-type: none"> ○ The executive has not been able to say what services will be lost as a result of three FTE no longer funded by general fund ○ The executive has not specified how the reductions in general fund support will be applied. 	

Funding

The Administration program is funded with a combination of general fund, state special revenue, federal funds and proprietary funds. The following table shows the funding sources in the Administration program.

Program Funding Table State Level Activities							
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005	
01100 General Fund	\$ 4,374,491	40.6%	\$ 4,492,769	26.5%	\$ 4,502,763	26.4%	
02001 School Lunch Program	78,367	0.7%	84,833	0.5%	85,480	0.5%	
02402 Traffic & Safety Education	107,002	1.0%	108,732	0.6%	108,893	0.6%	
03002 Public Instruction	6,116,225	56.8%	12,239,546	72.3%	12,328,763	72.4%	
06067 Advanced Drivers Education	90,791	0.8%	-	-	-	-	
Grand Total	\$ 10,766,876	100.0%	\$ 16,925,880	100.0%	\$ 17,025,899	100.0%	

The following table shows the various functions of the program, as well as the funding sources proposed to be utilized in the 2005 biennium.

Figure 3
OPI Agency Funding By Function
2005 Biennium Executive Budget

Function	Fiscal 2004				Fiscal 2005			
	General Fund	State Special	Federal Special	Total	General Fund	State Special	Federal Special	Total
Superintendent	\$ 497,707	\$ -	\$ -	\$ 497,707	\$ 490,657	\$ -	\$ -	\$ 490,657
Legal Services	412,517	-	316,678	729,195	403,260	-	318,040	721,300
Fed Administration	-	-	21,832	21,832	-	-	21,835	21,835
Information Technology	859,231	-	36,304	895,535	863,271	-	36,304	899,575
Distribution to Schools	699,077	-	-	699,077	699,018	-	-	699,018
Curriculum Services	580,605	-	3,930,572	4,511,177	591,899	-	3,930,720	4,522,619
Accreditation	274,650	-	683,970	958,620	274,203	-	685,067	959,270
Health Enhancement & Safety	77,840	193,565	1,898,356	2,169,761	78,280	194,373	1,901,256	2,173,909
Educational Opportunity & Equity	237,850	-	2,406,546	2,644,396	238,198	-	2,425,049	2,663,247
Special Education	530,812	-	2,302,529	2,833,341	541,223	-	2,367,546	2,908,769
Career Technical & Adult Education	322,480	-	642,759	965,239	322,754	-	642,946	965,700
Advanced Drivers Education	-	-	-	-	-	-	-	-
Total	\$ 4,492,769	\$ 193,565	\$ 12,239,546	\$ 16,925,880	\$ 4,502,763	\$ 194,373	\$ 12,328,763	\$ 17,025,899

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				824,186						825,712
Vacancy Savings				(242,856)						(242,930)
Inflation/Deflation				(2,223)						153
Fixed Costs				17,289						22,689
Total Statewide Present Law Adjustments				\$596,396						\$605,624
DP 30 - Federal Grant Award adjustments	4.35	0	0	1,004,044	4.35	0	0	1,068,393	1,068,393	
DP 45 - Advanced Driver Ed Enterprise - Removal from HB2	(1.25)	0	0	(111,655)*	(1.25)	0	0	0	(111,655)*	
DP 7000 - General adjustments, including special session	0.00	(134,233)	1,040	(108,892)	0.00	(132,706)	1,142	25,013	(106,551)	
Total Other Present Law Adjustments	3.10	(\$134,233)	\$1,040	\$783,497 *	3.10	(\$132,706)	\$1,142	\$1,093,406	\$850,187 *	
Grand Total All Present Law Adjustments				\$1,379,893 *						\$1,455,811 *

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 30 - Federal Grant Award adjustments - This is an adjustment in federal spending authority for grant awards currently administered by the Office of Public Instruction. The adjustments in federal grant awards are due to normal increases in federal funding and also the "No Child Left Behind Act of 2001" (NCLB) that reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB is an act to close the achievement gap with accountability, flexibility and choice. ESEA provides targeted resources to help ensure that disadvantaged students have access to a quality public education.

This proposal also includes funding increases to programs separate from the Act. These funds are used in support of the administration and technical assistance of current federal grants. This is a biennial appropriation.

**LFD
COMMENT**

The following figure shows present law changes in federal grant administration expected for fiscal 2004 and 2005.

Figure 4 Present Law Changes in Federal Grant Administration 2005 Biennium		
Grant	Fiscal 2004	Fiscal 2005
<u>Programs Increased</u>		
Adult Basic & Literacy Ed	\$ 3,550	\$ 3,550
Carl Perkins	13,029	13,029
Title I, Even Start	150	150
Title I, Migrant Education	50,000	50,000
Title I, Comp School Reform	6,194	6,194
Title II, Teacher & Principal Training	524,179	524,179
Title II, Enhancing Ed Technology	153,922	153,922
Title V, Innovative Programs	286,729	286,729
IDEA Part B	343,770	408,119
Language Acquisition	175,000	175,000
School Food	273,500	273,500
Veterans Education	25,339	25,339
Total	<u>\$ 1,855,362</u>	<u>\$ 1,919,711</u>
<u>Programs Eliminated or Reduced</u>		
Bilingual Support Services	\$ (96,729)	\$ (96,729)
Title II- Eisenhower Prof Development	(139,966)	(139,966)
Title III-Tech Literacy Challenge	(93,955)	(93,955)
Title VI - Innovative Programs	(286,729)	(286,729)
IDEA Transition	(155,083)	(155,083)
Immigrant Education	(117)	(117)
School to Work	(78,739)	(78,739)
Total	<u>\$ (851,315)</u>	<u>\$ (851,315)</u>
Net Increase - All Programs	<u>\$ 1,004,047</u>	<u>\$ 1,068,396</u>

DP 45 - Advanced Driver Ed Enterprise - Removal from HB2 - The Advanced Driver Education program was changed to an enterprise program for the 2003 biennium. This request removes the authority from HB 2 and moves the authority into a non-HB 2 proprietary fund.

DP 7000 - General adjustments, including special session - Includes: contract rate increases for audiology, adjustment for publication of the school law book, indirect cost adjustments, and special session reductions

Contract rate increases include:

Following each legislative session, the Office of Public Instruction contracts with the Legislative Services Division (LSD) for the printing of an updated volume of School Laws of Montana. This request will fund an anticipated increase in LSD's rates and an increase in postage costs. The request also includes funding to print an additional 500 copies of the School Law book. Section 20-3-105 requires OPI to sell the School Law book at the cost of printing and shipping, so the cost of this proposal will be recovered through an increase in the price charged for each volume sold. Revenue from the sale of School Law books is deposited in the general fund.

Audiology: Under the Individuals With Disabilities Education Act (IDEA) schools are required to have an effective child find system in place for individuals with disabilities from birth through twenty-one. The Hearing Conservation Program is the primary method in which public schools ensure proper identification of students who may have a hearing impairment.

Current contracts for the audiological program total \$344,862. The RFP, under which the Office of Public Instruction is now contracted, anticipated approximately a 3 percent increase per year, totaling \$10,346 in fiscal 2004 and \$21,003 in fiscal 2005. In addition, OPI is requesting \$22,000 per year for equipment replacement. Therefore, the total of the present law adjustment is \$32,346 for fiscal 2004 and \$65,003 for fiscal 2005.

Special session includes: Office supplies - \$4,104; 2/3 of equipment - \$25,067; and pay plan reduction - \$37,510. The Governor's reduction was incorporated into the special session version of HB 2 and also included a 3.5 percent reduction to this program.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 13 - Statewide Student Assessment										
06	0.00	253,250	0	0	253,250	0.00	263,250	0	0	263,250
DP 33 - Federal Assessment Requirement										
06	5.00	0	0	3,700,000	3,700,000	5.00	0	0	3,700,000	3,700,000
DP 34 - National Assessment of Educational Progress										
06	1.00	0	0	75,000	75,000	1.00	0	0	78,000	78,000
DP 35 - Advanced Placement Incentive										
06	0.50	0	0	50,154	50,154	0.50	0	0	50,123	50,123
DP 36 - Character Education										
06	1.30	0	0	75,000	75,000	1.30	0	0	75,000	75,000
DP 39 - Reading First										
06	1.50	0	0	610,000	610,000	1.50	0	0	625,000	625,000
DP 40 - REI / Rural Low Income Schools										
06	0.00	0	0	24,108	24,108	0.00	0	0	24,108	24,108
DP 43 - Title IV 21st Century Community Learning Centers										
06	1.00	0	0	140,000	140,000	1.00	0	0	140,000	140,000
DP 44 - Troops to Teachers										
06	0.00	0	0	253,467	253,467	0.00	0	0	254,829	254,829
DP 7020 - Reduction to balance the budget										
06	(3.00)	(401,868)	0	0	(401,868)	(3.00)	(407,098)	0	0	(407,098)
Total	7.30	(\$148,618)	\$0	\$4,927,729	\$4,779,111	7.30	(\$143,848)	\$0	\$4,947,060	\$4,803,212

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 13 - Statewide Student Assessment - This request is to fund a contract with a national testing service for the annual assessment of students in grades 4, 8, and 11 as required by the Board of Public Education (BPE) and the Elementary and Secondary Education Act of 1994. The estimated cost of continuing the testing service reflects the estimates provided by the contractor, Riverside Publishing Company. Funding the proposal would allow timely public access to education data,

as well as provide national comparison data on the academic achievement of students in the core academic areas.

DP 33 - Federal Assessment Requirement - Section 1111(b) of the Elementary and Secondary Education Act (ESEA) as reauthorized by the "No Child Left Behind Act of 2001" requires states to develop and implement a single statewide accountability system that is:

- Based on academic standards, and
- Administered to all public elementary and secondary school students.

This proposal creates and implements this test with federal revenue.

As required in a compliance agreement between the Montana Office of Public Instruction and the U.S. Department of Education and as required by the ESEA, a contract for an assessment instrument was signed with a vendor (after the Request for Proposal process) to provide testing of all Montana public school students in:

- Reading and mathematics in grades 4, 8, and 11 in school years 2003-2004 and 2004-2005; and
- Reading and mathematics in grades 3, 4, 5, 6, 7, 8, and 11 in 2005-2006 and beyond.

The cost of the contract for fiscal 2004 is \$2,499,850 and for fiscal 2005 is \$2,363,123. In addition, 5.00 FTE will administer the contract and will coordinate administration of the federally required assessment system, provide results to districts and the federal government, assure technical requirements are met, and assist educators in the use of assessment results to improve instruction. Funding will also provide for membership in a consortium of rural, western states to facilitate collaboration between states and to help eliminate duplication of effort. Additionally, funding may be used to help provide a federally required test of English Language Proficiency for limited English proficiency students.

DP 34 - National Assessment of Educational Progress - Federal funding is provided to hire a National Assessment of Educational Progress (NAEP) State Administrator at OPI to assist with the implementation of NAEP in Montana. NAEP reading and mathematics assessments will be administered biannually to 4th and 8th grade students beginning in 2003. NAEP assessments in additional subjects at grades 4, 8, and 11 will also be conducted following appropriation of funds by the U.S. Congress. The NAEP State Administrator will coordinate the administration of NAEP within Montana; promote understanding of NAEP and its relevance to the state assessment program; coordinate the analysis and interpretation of NAEP data; and coordinate communication of NAEP information to school administrators, teachers, parents and the general public.

DP 35 - Advanced Placement Incentive - OPI has applied to participate in the federally funded Advanced Placement Incentive Program to reimburse a major portion of the cost, for low-income students, of taking advanced placement tests. In addition, the OPI is forming a consortium with the Office of the Commissioner of Higher Education to build a permanent system of support and services to enable low-income students to adequately prepare for challenging coursework in the higher grades and to enter and succeed in college.

DP 36 - Character Education - The goals of this federal grant are to create school and community environments that support the development and demonstration of character in youth; enhance student academic performance and interpersonal and civic skills; and design and implement an effective character education model program that will meet the unique needs of a rural, sparsely populated state, which can be duplicated in both rural and urban areas nationally.

DP 39 - Reading First - This new federal program replaces the Reading Excellence Act and helps states and local educational agencies utilize scientifically based reading research to implement comprehensive reading instruction for children in kindergarten through third grade.

The new program requires schools that receive grants to select and administer screening, diagnostic, and classroom-based instructional reading assessments to determine which students in kindergarten through grade 3 are at risk of reading failure. The program also requires provision of professional development for involved teachers in the essential components of reading instruction.

DP 40 - REI / Rural Low Income Schools - OPI requests authority to coordinate and implement the provisions of the Rural Education Initiative's (REI) Rural Low Income Schools program (which is subpart 2 of the new federal ESEA law). This program provides funding to eligible school districts for teacher recruitment and retention, professional development, educational technology, parental involvement activities, safe and drug-free schools activities, language instruction activities and/or basic programs for improving the academic achievement of disadvantaged students.

The Rural Low Income (RLI) program provides new federal funds to school districts that are: (1) not eligible to participate in the REI program for small, rural schools (subpart 1 of the new federal ESEA law), (2) serve only schools with a school locale code of 6, 7 or 8 which designates the districts rural location, and (3) have a child poverty rate of at least 20 percent (i.e., at least 20 percent of the children aged 5-17 that are served by the district are from families with incomes below the poverty rate). Federal law provides for limited administrative funds (5 percent of the total state award) to coordinate and implement the RLI program.

DP 43 - Title IV 21st Century Community Learning Centers - The Health Enhancement and Safety Division requests authority for an FTE and for administrative funds to coordinate and implement the 21st Century Community Learning Centers program. The program provides funding through a competitive grant process for local school districts, community based organizations and cooperative agreements between these groups to provide before-school, after-school, and summer school activities for school age children. Priority is given to schools with a high concentration of poor students and those schools determined to be in need of improvement. Activities must provide academic enrichment that complement regular school-based academic programs and provide literacy support to the families of students. The HES Division will implement the program and will arrange technical assistance and training services to Montana schools and community-based organizations.

DP 44 - Troops to Teachers - OPI participates in the US Department of Defense and US Department of Education Troops-to-Teachers program. The program will assist 75 to 100 participants from Montana, Idaho, South Dakota, North Dakota, Wyoming and elsewhere to secure employment for the 2002-2003 school year.

The goal of the program is to recruit and assist military personnel in their pursuit of teaching as a second career, by identifying and facilitating the most appropriate route to certification and assisting participants to secure employment as public school teachers.

DP 7020 - Reduction to balance the budget - In order to balance the overall state budget the general fund available for OPI operations was reduced. Current level expenditures must be reduced by an additional \$808,962 for the 2005 biennium. OPI will accomplish this reduction through a variety of means, including elimination of three management or other relatively high paid positions, reducing the general fund budget for Carl Perkins match, eliminating the contract for grading GED exams and, as much as legally possible, switching the funding source for certain positions.

Three management positions will be eliminated for a savings of \$189,449 in fiscal 2004 and \$188,885 in fiscal 2005.

Operating expenditures in the Career Technical and Adult Education Division will be reduced to the minimum amount necessary to meet the federal match requirement for Carl Perkins funds, an annual reduction of \$19,480.

A contract for the grading of GED exams will be eliminated, saving \$9,820 each year.

The balance of the required biennial budget reduction (\$318,607) will be accomplished by, as much as legally possible, switching positions that are currently funded from the general fund to other funding sources. The positions that can be switched, and the other possible funding sources for those positions, will be determined at a later time.

As a result of the above reductions, indirect costs paid from the general fund will also be reduced by \$63,841 in fiscal 2004 and \$64,600 in fiscal 2005.

**LFD
ISSUE**

OPI is not able to explain how the services performed by the three general fund positions will be reduced.

Language Recommendations

The Executive Budget recommends the following language be included in HB 2:

"The office of public instruction may distribute funds from the appropriation in item (in-state treatment) to public school districts for the purpose of providing educational costs of children with significant behavioral or physical needs."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	128,250	106,760	0	235,010	106,760	0	235,010	470,020
Local Assistance	556,671,249	(43,162,127)	(4,449,816)	509,059,306	(50,348,822)	7,752,493	514,074,920	1,023,134,226
Grants	88,069,720	16,874,513	6,398,056	111,342,289	21,345,429	6,483,056	115,898,205	227,240,494
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$644,869,219	(\$26,180,854)	\$1,948,240	\$620,636,605	(\$28,896,633)	\$14,235,549	\$630,208,135	\$1,250,844,740
General Fund	556,180,287	(42,996,165)	(8,547,816)	504,636,306	(50,182,860)	3,392,493	509,389,920	1,014,026,226
State/Other Special	906,750	(156,750)	4,098,000	4,848,000	(156,750)	4,360,000	5,110,000	9,958,000
Federal Special	87,782,182	16,972,061	6,398,056	111,152,299	21,442,977	6,483,056	115,708,215	226,860,514
Total Funds	\$644,869,219	(\$26,180,854)	\$1,948,240	\$620,636,605	(\$28,896,633)	\$14,235,549	\$630,208,135	\$1,250,844,740

Program Description

The Local Education Activities program is used by OPI to distribute various state and federal funds to local education agencies.

Program Narrative

Local Education Activities - Distribution to Schools Program Major Budget Highlights
<ul style="list-style-type: none"> ○ OPI's budget for distribution to schools increases by \$51.3 million during the 2005 biennium, virtually all of which is federal funds. The executive proposes:" ○ To increase the amount distributed to schools from state sources by only \$152 during the 2005 biennium compared with fiscal 2002. ○ To increase state support by increasing entitlements, school facility reimbursements, transportation and 3-year averaging of enrollments. ○ To reduce state support by reducing direct state aid, HB 124 block grants, teachers' retirement contributions and technology purchases. ○ To utilize more state special funds rather than the general fund to pay for school costs. ○ To spend increases in federal funds of \$23.4 million in fiscal 2004 and \$27.9 million in fiscal 2005 primarily on teacher and principal training, special education, and several new programs associated with the "No Child Left Behind" act. ○ The executive recommends legislation for the following: <ul style="list-style-type: none"> ○ Average ANB for calculating district general fund budgets in fiscal 2005 ○ Increase Basic and per-ANB entitlements, and reduce the direct state aid percentage ○ Partially eliminate district transportation HB 124 block grants and use to fund increases in state transportation aid ○ Eliminate school facility HB 124 block grants and use to fund increases in the school facility entitlements ○ Use Treasure State Endowment Program monies to increase funding for the school facility reimbursement program ○ Institute a teacher loan repayment program ○ Reallocate timber revenue to pay for Base Aid ○ Require district funds other than the general fund to pay for their own retirement costs ○ Eliminate growth in all remaining district and county HB 124 block grants. ○ See the decision package table below for a summary of the financial impacts of the executive's proposals with respect to distribution to schools.
Major LFD Issues
<ul style="list-style-type: none"> ○ The executive proposal increases school funding complexity by utilizing state accounts other than the general fund to distribute money to schools. ○ The executive proposal decreases Base aid below fiscal 2002 levels and increases state support for non-classroom expenditures. ○ The executive's proposal regarding the redistribution of HB 124 block grant monies, as well as its retirement proposal, will result in large shifts in property taxes between districts and counties, although the impact on property taxes statewide is small. ○ The executive's proposal to require funds other than the district general fund to pay the retirement costs associated with each fund's own salaries, may result in service reductions and /or tax increases for other district funds ○ The executive's retirement proposal may violate the federal prohibition on the use of federal funds to supplant local funds ○ The executive's proposal on averaging ANB in fiscal 2005 will increase present law costs in the 2007 biennium. ○ The executive proposal does not account for the impact of the fiscal 2004 statewide reappraisal of property values on state guaranteed tax base costs.

The following table shows the impact of the governor's proposal on state funds in the 2005 biennium. Each proposal is cross-referenced by the decision package number. The numbers for total state impact at the bottom of the table do not tie with the program funding tables because this table includes the guarantee fund. Each of the new proposals require legislation.

Figure 5				
Executive Proposals for K-12 Distribution to Schools - 2005 Biennium				
BY Fund and Decision Package Number				
Present Law Adjustments		Fiscal 2004	Fiscal 2005	Biennium
General Fund				
	Base Aid Changes			
DP1	Reduction due to fewer ANB	\$ (3,227,200)	\$ (11,865,251)	\$ (15,092,451)
DP1	Increase in Retirement GTB	3,801,623	4,383,325	8,184,948
DP49	Switch to Guarantee Account	<u>(44,273,000)</u>	<u>(44,017,000)</u>	<u>(88,290,000)</u>
	Total Base Aid Changes	\$(43,698,577)	\$ (51,498,926)	\$ (95,197,503)
DP2	Transportation	\$ 81,031	\$ 81,031	162,062
DP3	Special Education	1,008,584	1,008,584	2,017,168
DP5	School Facility	33,817	143,817	177,634
DP8&10	Other Biennial	384,126	388,426	772,552
DP51	HB 124 District block grants	(280,052)	126,504	(153,548)
DP51	HB 124 Countywide Block Grants	(525,094)	(432,296)	(957,390)
	Total General fund	\$(42,996,165)	\$ (50,182,860)	\$ (93,179,025)
DP49	Guarantee Account - Pay for Base Aid with Common School Trust I&I	\$ 44,273,000	\$ 45,017,000	\$ 89,290,000
DP49	State Special Account - Remove Timber for Technology	\$ (156,750)	\$ (156,750)	\$ (313,500)
	Present Law - All State Accounts	\$ 1,120,085	\$ (5,322,610)	\$ (4,202,525)
New Proposals		Fiscal 2004	Fiscal 2005	Biennium
General Fund				
	Base Aid Changes			
DP8210	3-yr Averaging	\$ -	\$ 7,079,448	\$ 7,079,448
DP8210	Redefine ANB - less than one class not counted	(150,000)	(150,000)	(300,000)
DP8280	Increase entitlements 2%, then 1%	8,826,666	13,271,173	22,097,839
DP8280	Reduce DSA to 42.6% from 44.7%	(8,006,383)	(8,107,820)	(16,114,203)
DP8250	Pay for Base aid from timber in guarantee account	(1,000,000)	(900,000)	(1,900,000)
DP8270	Reduce Payments From District General Fund to County Retirement	(4,275,000)	(3,555,000)	(7,830,000)
	Total Base Aid Changes	\$ (4,604,717)	\$ 7,637,801	\$ 3,033,084
	School Facility			
DP8220	Use school facility HB 124 Block Grants to fund School Facility Reimb	\$ 3,990,408	\$ 3,990,408	\$ 7,980,816
DP8240	Fund switch - use TSEP state special funds for school facilities	(4,098,000)	(4,360,000)	(8,458,000)
	Total School Facility	\$ (107,592)	\$ (369,592)	\$ (477,184)
	Transportation			
DP8220	Use Transportation HB 124 Block Grants to fund Transport New Proposal	\$ 1,746,661	\$ 1,746,661	\$ 3,493,321
	HB124 Block Grants			-
DP8290	Postpone Growth in District and County Block Grants- Two Years	\$ (175,099)	\$ (545,309)	\$ (720,408)
DP8220	Eliminate One-half Transportation HB 124 Block Grants	(1,746,661)	(1,746,661)	(3,493,321)
DP8220	Eliminate School Facility HB 124 Block Grants	<u>(3,990,408)</u>	<u>(3,990,408)</u>	<u>(7,980,816)</u>
	Total HB 124 Block Grants	\$ (5,912,168)	\$ (6,282,378)	\$ (12,194,545)
DP8230	Teacher Loan Repayment Program	\$ 330,000	\$ 660,000	\$ 990,000
	Total General Fund	\$ (8,547,816)	\$ 3,392,493	\$ (5,155,323)
DP8250	Guarantee Fund - BASE Aid Payment from Timber Revenue	\$ 1,000,000	\$ (100,000)	\$ 900,000
DP8240	State Special - Use TSEP Money in new school facility account	\$ 4,098,000	\$ 4,360,000	\$ 8,458,000
	Total New Proposals - All State Accounts	<u>\$ (3,449,816)</u>	<u>\$ 7,652,493</u>	<u>\$ 4,202,677</u>
	Total Present Law and New Proposals - All State Accounts	<u>\$ (2,329,731)</u>	<u>\$ 2,329,883</u>	<u>\$ 152</u>

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor. The table also provides a broad overview of funding for the distribution to the public schools program.

Program Funding Table Local Education Activities						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 510,539,670	79.2%	\$ 504,636,306	81.3%	\$ 509,389,920	80.8%
01101 General Fund Guarantee Account	45,640,617	7.1%	-	-	-	-
02018 Guarantee Fund	156,750	0.0%	-	-	-	-
02402 Traffic & Safety Education	750,000	0.1%	750,000	0.1%	750,000	0.1%
02791 School Facility Ssr	-	-	4,098,000	0.7%	4,360,000	0.7%
03170 Grant Clearance Discretionary	<u>87,782,182</u>	<u>13.6%</u>	<u>111,152,299</u>	<u>17.9%</u>	<u>115,708,215</u>	<u>18.4%</u>
Grand Total	<u>\$ 644,869,219</u>	<u>100.0%</u>	<u>\$ 620,636,605</u>	<u>100.0%</u>	<u>\$ 630,208,135</u>	<u>100.0%</u>

The following table provides a complete listing of appropriations by fund type included in the Local Education Activities - Distribution to Schools - Program. This table, unlike the program table includes the spending from the guarantee fund.

Figure 6

Distribution to Schools, General Fund, State Special, and Federal Funds							
Description	Base Budget 2002	PL Base Adjustments Fiscal 2004	New Proposals Fiscal 2004	Total Fiscal 2004	PL Base Adjustments Fiscal 2005	New Proposals Fiscal 2005	Total Fiscal 2005
General Fund							
Direct State Aid	\$ 322,166,465	\$ (47,054,856)	\$ (9,890,977)	\$ 265,220,632	\$ (52,042,041)	\$ (1,485,323)	\$ 268,639,101
GTB - School General Fund	97,988,462	(445,344)	9,693,016	107,236,134	(3,840,210)	12,939,023	107,087,275
GTB - School Retirement	18,553,969	3,801,623	(4,275,000)	18,080,592	4,383,325	(3,555,000)	19,382,294
School Facility Reimbursement	4,216,183	33,817	(107,592)	4,142,408	143,817	(369,592)	3,990,408
Special Education	33,904,056	1,008,584	-	34,912,640	1,008,584	-	34,912,640
Transportation	10,318,969	81,031	1,746,661	12,146,661	81,031	1,746,661	12,146,661
Instate Treatment	604,272	370,624	-	974,896	370,624	-	974,896
Secondary Vo Ed	714,910	90	-	715,000	90	-	715,000
Adult Basic Ed	275,000	-	-	275,000	-	-	275,000
Gifted & Talented	140,788	9,212	-	150,000	9,212	-	150,000
School Food	648,653	-	-	648,653	-	-	648,653
Timber Harvest	-	-	-	-	-	-	-
Other	139,275	4,200	-	143,475	8,500	-	147,775
Teacher Loan Repayment	-	-	330,000	330,000	-	660,000	660,000
Other District HB 124 Block Grants	46,290,560	(280,052)	(403,490)	45,607,018	126,504	(810,046)	45,607,018
School Facility Block Grants	3,990,408	-	(3,990,408)	-	-	(3,990,408)	-
District Transportation Block Grants	3,493,321	-	(1,746,661)	1,746,661	-	(1,746,661)	1,746,661
County HB124 Block Grants	<u>12,734,996</u>	<u>(525,094)</u>	<u>96,635</u>	<u>12,306,537</u>	<u>(432,296)</u>	<u>3,839</u>	<u>12,306,539</u>
Total General Fund	\$ 556,180,287	\$ (42,996,165)	\$ (8,547,816)	\$ 504,636,306	\$ (50,182,860)	\$ 3,392,493	\$ 509,389,920
State Special Revenue							
Timber Harvest for Technology	\$ 156,750	\$ (156,750)	\$ -	\$ -	\$ (156,750)	\$ -	\$ -
Traffic Safety Distribution	750,000	-	-	750,000	-	-	750,000
School Facility TSEP Switch	-	-	4,098,000	4,098,000	-	4,360,000	4,360,000
Flex Account	-	-	-	-	-	-	-
Total State Special	\$ 906,750	\$ (156,750)	\$ 4,098,000	\$ 4,848,000	\$ (156,750)	\$ 4,360,000	\$ 5,110,000
Statutory Appropriations							
Guarantee Account - Interest & Income	\$ -	\$ 44,273,000	\$ -	\$ 44,273,000	\$ 44,017,000	\$ -	\$ 44,017,000
Guarantee Account -Timber	-	-	1,000,000	1,000,000	1,000,000	(100,000)	900,000
Total Statutory	\$ -	\$ 44,273,000	\$ 1,000,000	\$ 45,273,000	\$ 45,017,000	\$ (100,000)	\$ 44,917,000
Federal Special Revenue							
Federal School Foods Programs	\$ 18,486,009	\$ -	\$ -	\$ 18,486,009	\$ -	\$ -	\$ 18,486,009
ESEA - Title I	28,764,748	5,710,000	-	34,474,748	5,710,000	-	34,474,748
ESEA Title II - Teacher & Principal Training	1,550,970	14,509,064	-	16,060,034	14,509,064	-	16,060,034
ESEA Title III-Tech Literacy Challenge	1,272,819	(1,137,580)	-	135,239	(1,137,580)	-	135,239
ESEA Title IV Drug Free Schools	1,523,416	150,000	-	1,673,416	150,000	-	1,673,416
ESEA Title V & VI - Innovative Ed	1,674,190	250,000	-	1,924,190	250,000	-	1,924,190
ESEA Title VII - Immigrant Ed	26,701	(17,606)	-	9,095	(17,606)	-	9,095
IDEA	17,168,458	6,999,855	-	24,168,313	11,470,771	-	28,639,229
Adult Basic Education	1,267,724	140,000	-	1,407,724	140,000	-	1,407,724
Carl Perkins	2,903,237	190,000	-	3,093,237	190,000	-	3,093,237
School to Work	2,036,748	(2,036,748)	-	-	(2,036,748)	-	-
Education of Homeless Children	53,703	50,000	-	103,703	50,000	-	103,703
Learn and Serve Montana	42,607	-	-	42,607	-	-	42,607
Reduced Class Size BL	7,536,684	(7,536,684)	-	-	(7,536,684)	-	-
Advanced Placement Fee Reimb	158,174	106,760	-	264,934	106,760	-	264,934
Emergency School Renovation	1,955,178	(850,000)	-	1,105,178	(850,000)	-	1,105,178
Comprehensive School Reform	821,024	20,000	-	841,024	20,000	-	841,024
Workplace Essentials	21,700	-	-	21,700	-	-	21,700
Reading Excellence	518,092	-	-	518,092	-	-	518,092
Language Acquisition	-	425,000	-	425,000	425,000	-	425,000
Community Service Grant Pgm	-	-	250,000	250,000	-	250,000	250,000
Reading First (replace read excellence)???	-	-	2,890,000	2,890,000	-	2,975,000	2,975,000
REI/Rural Low Income Schools	-	-	458,056	458,056	-	458,056	458,056
Title IV-21st Cent Comm Learn Ctrs	-	-	<u>2,800,000</u>	<u>2,800,000</u>	-	<u>2,800,000</u>	<u>2,800,000</u>
Total Federal Special	\$ 87,782,182	\$ 16,972,061	\$ 6,398,056	\$ 111,152,299	\$ 21,442,977	\$ 6,483,056	\$ 115,708,215
Funding							
Total General Fund	\$ 556,180,287	\$ (42,996,165)	\$ (8,547,816)	\$ 504,636,306	\$ (50,182,860)	\$ 3,392,493	\$ 509,389,920
Total Statutory	-	44,273,000	1,000,000	45,273,000	45,017,000	(100,000)	44,917,000
Total State Special	906,750	(156,750)	4,098,000	4,848,000	(156,750)	4,360,000	5,110,000
Total Federal Special	<u>87,782,182</u>	<u>16,972,061</u>	<u>6,398,056</u>	<u>111,152,299</u>	<u>21,442,977</u>	<u>6,483,056</u>	<u>115,708,215</u>
Total Distribution to Public Schools	\$ 644,869,219	\$ 18,092,146	\$ 2,948,240	\$ 665,909,605	\$ 16,120,367	\$ 14,135,549	\$ 675,125,135

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 1 - Adjust K-12 Base Aid	0.00	574,423	0	0	574,423	0.00	(7,481,926)	0	0	(7,481,926)
DP 2 - Adjust State Transportation Aid	0.00	81,031	0	0	81,031	0.00	81,031	0	0	81,031
DP 3 - Special Ed. State Maintenance of Fiscal Effort	0.00	1,008,584	0	0	1,008,584	0.00	1,008,584	0	0	1,008,584
DP 5 - School Facility Reimbursement	0.00	33,817	0	0	33,817	0.00	143,817	0	0	143,817
DP 8 - School District Audit Filing Fee annual increase	0.00	4,200	0	0	4,200	0.00	8,500	0	0	8,500
DP 10 - Biennial Appropriations	0.00	379,926	0	0	379,926	0.00	379,926	0	0	379,926
DP 31 - Federal Grants - increase in current grants	0.00	0	0	16,972,061	16,972,061	0.00	0	0	21,442,977	21,442,977
DP 49 - Guarantee Account - Statutory Appropriations	0.00	(44,273,000)	(156,750)	0	(44,429,750)	0.00	(44,017,000)	(156,750)	0	(44,173,750)
DP 51 - School Block Grants established in HB124 and HB18	0.00	(805,146)	0	0	(805,146)	0.00	(305,792)	0	0	(305,792)
Total Other Present Law Adjustments										
0.00	(\$42,996,165)	(\$156,750)	\$16,972,061	(\$26,180,854)		0.00	(\$50,182,860)	(\$156,750)	\$21,442,977	(\$28,896,633)
Grand Total All Present Law Adjustments										
				(\$26,180,854)		(\$28,896,633)				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Adjust K-12 Base Aid - This present law adjustment reflects a projected \$6.9 million savings to the state general fund for K-12 BASE aid due to declining enrollment, increasing entitlements, and increasing retirement costs..

LFD COMMENT

Declining enrollments as measured by Average Number Belonging (ANB) lead to savings in direct state aid and Guaranteed Tax Base (GTB) aid for districts' general fund. As shown in the following figure, ANB will be 5,162 less in fiscal 2004 than in fiscal 2002, and will be 7,886 less in fiscal 2005 than in fiscal 2002. Direct state aid and district general fund GTB, will decline by \$3.2 million in fiscal 2004 and by \$11.9 million in fiscal 2005 when compared with fiscal 2002. These declines would have been larger except for the increase in statutory entitlements in fiscal 2003, which under present law carry over to fiscal 2004 and 2005. The estimates of Base aid for fiscal 2004 and 2005 are based on the assumption that HB124 block grants to districts' general funds will grow by 0.8 percent in each year. Also property tax reimbursements associated with HB 20 and SB 417 are projected to decline at 10 percent per year, as set in statute.

Average Number Belonging (ANB) in Montana Schools

Fiscal Year	Elementary	Percent Change	High School	Percent Change	Total	Percent Change
Actual & Present Law						
A 1994	111,507		45,443		156,950	
A 1995 *	114,772	2.9%	47,818	5.2%	162,590	3.6%
A 1996	114,734	0.0%	49,045	2.6%	163,779	0.7%
A 1997	114,160	-0.5%	50,582	3.1%	164,742	0.6%
A 1998	112,449	-1.5%	51,432	1.7%	163,881	-0.5%
A 1999	109,852	-2.3%	51,885	0.9%	161,737	-1.3%
A 2000	107,724	-1.9%	52,022	0.3%	159,746	-1.2%
A 2001	106,014	-1.6%	51,524	-1.0%	157,538	-1.4%
A 2002	103,633	-2.2%	50,794	-1.4%	154,427	-2.0%
A 2003	101,139	-2.4%	50,366	-0.8%	151,505	-1.9%
E 2004	99,165	-2.0%	50,100	-0.5%	149,265	-1.5%
E 2005	97,264	-1.9%	49,277	-1.6%	146,541	-1.8%

* includes for the first time, students who spend more than 1/2 day in special education class
A = Actual; E = Estimated

Figure 7

**LFD
COMMENT
(continued)**

The estimates of Base aid for fiscal 2004 and 2005 are based on the assumption that HB124 block grants to districts' general funds will grow by 0.8 percent in each year. Also property tax reimbursements associated with HB 20 and SB 417 are projected to decline at 10 percent per year, as set in statute. These estimates do not take account of changes in each district's tax base due to reappraisal beginning in fiscal 2004. This information will not be available until after the 58th legislative session has convened. Retirement GTB costs are projected to increase above the level in fiscal 2002, by \$3.8 million in fiscal 2004 and by \$4.4 million in fiscal 2005. Retirement GTB was artificially low in fiscal 2002 due to high HB124 block grants. Retirement GTB in fiscal 2003 is expected to be \$21.75 million, a level nearer its long run trend. Estimates for fiscal 2004 and 2005 are based on an assumption of three percent growth in districts' retirement budgets.

DP 2 - Adjust State Transportation Aid - This present law adjustment establishes the fiscal 2004 and fiscal 2005 appropriations for state transportation aid payments at \$10.4 million, \$81,031 higher than the base year amount. State transportation payments are made based on a statutory formula based on bus miles and ridership. State payments to schools for the transportation of students have been growing slowly over the past several years, but have recently leveled out. Several things can cause a change in this state payment - changes in the number of busses, changes in the number of eligible riders, changes in the number of bus routes, changes in the number of individual contracts, and changes in the amount of district re-appropriations will all affect the amount of the payment. This is a biennial appropriation.

DP 3 - Special Ed. State Maintenance of Fiscal Effort - The base year expenditure is \$33,904,640. The state special education allocation in HB 2 in fiscal 2003 is \$34,912,640. Federal maintenance of effort requirements require that no reduction can be made in subsequent years. Appropriating a lesser amount than fiscal 2003 will result in a dollar for dollar reduction in federal funding for special education. This is a biennial appropriation.

DP 5 - School Facility Reimbursement - This present law adjustment is to establish the fiscal 2004 and fiscal 2005 appropriations for school facility payments at \$4.25 million each year, slightly less than the fiscal 2003 appropriated amount of \$4.45 million. School facility reimbursements are wealth-based payments to districts to help pay for debt service associated with bonds sold after July 1, 1991. This is a biennial appropriation.

**LFD
ISSUE**

The appropriation for school facility reimbursements was underspent in fiscal 2002 by \$134,000. The appropriation for fiscal 2003 was reduced by \$250,000 during the August 2002 special session, to \$4.45 million. According to OPI, the preliminary cost of school facility reimbursements in fiscal 2003 is expected to be \$4,084,559, and costs in fiscal 2004 are expected to be \$3,795,418, under the assumption that no new bond issues would be made. Predictions of new bond issues are difficult to make since they must be approved by voters and depend upon the level of interest rates. Low interest rates make it more likely a new bond issued would be passed. A bill passed during the 2001 legislative session, HB 457, makes it easier to fund debt service needs by allowing utilization of up to 25 percent of federal impact aid funds, which may substitute for local effort. One school has already taken advantage of this. If a large school such as Browning uses this procedure, the amount available for school facility reimbursements for other schools would be reduced.

DP 8 - School District Audit Filing Fee - - This increase will allow OPI to pay school district audit filing fees in accordance with the Department of Administration's fee schedule, which is based on the amount of school district revenues. Payment of this fee from OPI to the Department of Administration is required by Section 2-7-514(2), MCA. This increase assumes school district revenues will increase three percent each year. Base year expenditures are \$139,275. This is a biennial appropriation.

DP 10 - Biennial Appropriations - This present law adjustment establishes biennial appropriations in each year at half of the amount appropriated for the 2003 biennium. The biennial appropriations include instate treatment (\$974,897 per year), Secondary Vo-ed (\$715,000 per year), Adult Basic Ed (\$275,000 per year), Gifted and Talented (\$150,000 per

year) and School Foods (\$648,653 per year). These programs have either federal maintenance of effort requirements, or federal matching requirements. The biennial appropriations have been at these levels for many years.

DP 31 - Federal Grants - Increase in Current Grants - The adjustments in current federal grant awards are due in part to the "No Child Left Behind Act of 2001" (NCLB) that reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB is an act to close the achievement gap with accountability, flexibility and choice, so that no child is left behind. ESEA provides targeted resources to help ensure that disadvantaged students have access to a quality public education. This proposal also includes funding increases to programs separate from the Act. These funds will be distributed to the school districts. This is a biennial appropriation.

**LFD
COMMENT**

The figure below shows those federal grants that have increased or are new and those that have been eliminated or reduced.

Figure 8 Federal Grant Awards Present Law Adjustments			
Programs Increased	Base 2002	Increase / Decrease	
		Fiscal 2004	Fiscal 2005
ESEA - Title I	\$ 28,764,748	\$ 5,710,000	\$ 5,710,000
ESEA Title II - Teacher & Principal Training	-	16,152,508	16,152,508
ESEA Title IV Drug Free Schools	1,523,416	150,000	150,000
ESEA Title V & VI - Innovative Ed	1,674,190	250,000	250,000
IDEA	17,168,458	6,999,855	11,470,771
Adult Basic Education	1,267,724	140,000	140,000
Carl Perkins	2,903,237	190,000	190,000
Education of Homeless Children	53,703	50,000	50,000
Advanced Placement Fee Reimb	158,174	106,760	106,760
Comprehensive School Reform	821,024	20,000	20,000
Language Acquisition	-	425,000	425,000
Total	\$ 54,334,674	\$ 30,194,123	\$ 34,665,039
<u>Programs Eliminated or Reduced</u>			
ESEA Title II - Eisenhower Prof Development	\$ 1,550,970	\$ (1,643,444)	\$ (1,643,444)
ESEA Title III-Tech Literacy Challenge	1,272,819	(1,137,580)	(1,137,580)
ESEA Title VII - Immigrant Ed	26,701	(17,606)	(17,606)
School to Work	2,036,748	(2,036,748)	(2,036,748)
Reduced Class Size BL	7,536,684	(7,536,684)	(7,536,684)
Emergency School Renovation	1,955,178	(850,000)	(850,000)
Total	\$ 14,379,100	\$ (13,222,062)	\$ (13,222,062)
Total All Programs	\$ 68,713,774	\$ 16,972,061	\$ 21,442,977

DP 49 - Guarantee Account - Statutory Appropriations - This present law adjustment removes appropriation authority for Base aid from the general fund in the 2005 Biennium. A portion of Base aid payments to schools will be statutorily appropriated from the new guarantee fund in fiscal 2004 and 2005.

LFD COMMENT

In fiscal 2002, there was a guarantee sub-account in the general fund into which was deposited common school lands income and interest (I&I). These funds were used to pay Base aid to schools as well as interest on the SB 495 loan. SB 495 (2001 legislature) created a loan from the coal tax trust to the common school lands trust. The \$46.4 million loan was used to purchase the stream of future mineral royalties generated on school lands. As a result of these transactions, mineral royalties could be used for school BASE aid in the guarantee sub-account instead of being deposited in the school lands trust as in the past.

Also in fiscal 2002, timber revenue from school lands was deposited into a state special account. The timber for technology account used funds from the previous year's timber harvest to purchase school technology in the current year.

For fiscal 2003, the guarantee sub account was abolished and a new state special guarantee account was created by HB 7, passed during the August 2002 special session. The new guarantee account receives school land interest and income, including mineral royalties, and school land timber revenue. Except for an amount to pay for SB 495 loan interest, all of these funds are statutorily appropriated (i.e. the appropriation is limited to the monies available in the fund) and are to be used for Base aid in fiscal 2003. The use of timber funds for technology purchases was temporarily eliminated in fiscal 2003 by HB 4 passed during the August 2002 special session. These funds are being used for BASE aid in fiscal 2003.

In fiscal 2004 and 2005, only the interest and income money will be available for Base aid under present law. The amount available for Base aid is the interest and income generated on school lands (including mineral royalties) less the SB 495 interest payment to the general fund, less the SB 495 principal payment to the permanent coal tax trust, required to pay back the \$46.4 million loan. The principal payment is 20 percent of each year's school lands mineral royalty revenues, and increases in subsequent years.

Under present law, the timber money received in fiscal 2004 will be reserved for technology purchases in fiscal 2005.

DP 51 - School Block Grants Established in HB 124 and HB 18 - This adjustment continues the block grants to schools and counties at the level stated in HB 18 of special session. "The governor shall include the appropriation in [section 248(1)] \$107,395,032 in the biennial present law base budget prepared for the 58th legislative session for continued funding of the school district budget items funded by that appropriation" and "The amount of \$12,210,205 must be reserved for countywide retirement and countywide transportation in fiscal year 2004, and the amount of \$12,303,002 must be reserved for countywide retirement and countywide transportation in fiscal year 2005."

LFD COMMENT

The amount of the adjustment for district HB 124 block grants is \$-280,052 in fiscal 2004 and \$126,504 in fiscal 2005. The adjustment for the countywide transportation and retirement accounts is \$-525,094 in fiscal 2004 and \$-432,296 fiscal 2005. It was the intent of the legislature in HB 18 to continue to fund increases in both district and countywide HB 124 block grants at 0.76 percent per year in the 2005 biennium. These adjustments to the fiscal 2002 base year amounts are negative because HB18 reduced fiscal 2003 block grants to adjust for overpayments in fiscal 2002. These overpayments were a result of miscalculations in the amount of motor vehicle tax revenue given up by the district accounts and the county accounts when HB 124 was passed in 2001. HB 18 directed that the block grants for fiscal 2004 are the average of the block grants in fiscal 2002 and 2003 plus growth of 0.76 percent.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 32 - Community Service Grant Program										
09	0.00	0	0	250,000	250,000	0.00	0	0	250,000	250,000
DP 39 - Reading First - Federal Title I, Part B, Subpart 1										
09	0.00	0	0	2,890,000	2,890,000	0.00	0	0	2,975,000	2,975,000
DP 41 - REI / Rural Low Income Schools										
09	0.00	0	0	458,056	458,056	0.00	0	0	458,056	458,056
DP 43 - Title IV 21st Century Community Learning Centers										
09	0.00	0	0	2,800,000	2,800,000	0.00	0	0	2,800,000	2,800,000
DP 8210 - Advisory Council recommendation on Averaging ANB (Requires Legislation)										
09	0.00	(150,000)	0	0	(150,000)	0.00	6,929,448	0	0	6,929,448
DP 8220 - Advisory Council rec.: Transportation & some HB124 (Requires Legislation)										
09	0.00	0	0	0	0	0.00	0	0	0	0
DP 8230 - Teacher (Requires Legislation)										
09	0.00	330,000	0	0	330,000	0.00	660,000	0	0	660,000
DP 8240 - Fund (Requires Legislation)										
09	0.00	(4,098,000)	4,098,000	0	0	0.00	(4,360,000)	4,360,000	0	0
DP 8250 - Reallocate (Requires Legislation)										
09	0.00	(1,000,000)	0	0	(1,000,000)	0.00	(900,000)	0	0	(900,000)
DP 8270 - Retire (Requires Legislation)										
09	0.00	(4,275,000)	0	0	(4,275,000)	0.00	(3,555,000)	0	0	(3,555,000)
DP 8280 - School (Requires Legislation)										
09	0.00	820,283	0	0	820,283	0.00	5,163,354	0	0	5,163,354
DP 8290 - Adjust HB 124 block grants (Requires Legislation)										
09	0.00	(175,099)	0	0	(175,099)	0.00	(545,309)	0	0	(545,309)
Total	0.00	(\$8,547,816)	\$4,098,000	\$6,398,056	\$1,948,240	0.00	\$3,392,493	\$4,360,000	\$6,483,056	\$14,235,549

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

The table below shows new proposed Federal grant awards.

Federal Grant Awards New Proposals		
Award	Fiscal 2004	Fiscal 2005
Community Service Grant Pgm	\$ 250,000	\$ 250,000
Reading First	2,890,000	2,975,000
REI/Rural Low Income Schools	458,056	458,056
Title IV-21st Cent Comm Learn Ctrs	2,800,000	2,800,000
Total	\$ 6,398,056	\$ 6,483,056

DP 32 - Community Service Grant Program – This is a Federal grant to implement a program under which students expelled or suspended from school are required to perform community service. This program is authorized within Title IV of the No Child Left Behind Act of 2001.

Montana is allocated \$250,000 in each year of the biennium from federal sources to support the program. Federal guidance has not been issued, therefore no further information regarding intent or intended outcomes is currently available.

DP 39 - Reading First - Federal Title I, Part B, Subpart 1 - This is a new federal program (replacing the Reading Excellence Act) to help States and local educational agencies utilize scientifically based reading research to implement comprehensive reading instruction for children in kindergarten through third grade.

This proposal requires sub-grantees to select and administer screening, diagnostic, and classroom-based instructional reading assessments to determine which students in kindergarten through grade 3 are at risk of reading failure. The proposal also requires sub-grantees to provide professional development, for teachers of students in kindergarten through grade 3 and special education teachers of students in kindergarten through grade 12, in the essential components of reading instruction.

DP 41 - REI / Rural Low Income Schools - The Accreditation Division of OPI requests authority for flow-through funds for distribution to schools under the provisions of the Rural Education Initiative's (REI) Rural Low Income Schools program (which is subpart 2 of the new federal ESEA law). This program provides funding to eligible school districts for teacher recruitment and retention, professional development, educational technology, parental involvement activities, safe and drug-free schools activities, language instruction activities and/or basic programs for improving the academic achievement of disadvantaged students (Title I Part A programs).

The Rural Low Income (RLI) program provides new federal funds to school districts that are: (1) not eligible to participate in the REI program for small, rural schools (subpart 1 of the new federal ESEA law), (2) serve only schools with a school locale code of 6, 7 or 8 which designates the districts rural location, and (3) have a child poverty rate of at least 20 percent (i.e., at least 20 percent of the children aged 5-17 that are served by the district are from families with incomes below the poverty rate). Federal law provides for formula funding of eligible districts (95 percent of the total state award) to provide the services authorized under the RLI program.

DP 43 - Title IV 21st Century Community Learning Centers - The Health Enhancement and Safety Division requests authority for flow-through funds to implement the 21st Century Community Learning Centers program. The program provides funding through a competitive grant process for local school districts, community based organizations and cooperative agreements between these groups to provide before-school, after-school, and summer school activities for school age children. Priority is given to schools with a high concentration of poor students and those schools determined to be in need of improvement. Activities must provide academic enrichment that complement regular school-based academic programs and provide literacy support to the families of students. The HES Division will implement the program and will arrange technical assistance and training services to Montana schools and community-based organizations. The current funding level within the HES Division is not sufficient to allow the OPI to provide this academic support service to schools.

Other Legislation Required to implement HB 2

DP 8210 - Governor's Advisory Council Recommendations on Averaging ANB - This proposal attempts to mitigate the effect of declining enrollments on school district general fund budgets by calculating a district's basic and per student entitlements using average number belonging (ANB) over a three-year period in fiscal 2005 and thereafter. A minor change in the definition of ANB is also included in this proposal. Beginning in fiscal 2004, the new definition would require that a student who attends only one class per day no longer be counted as half an ANB. State savings as a result of the definitional change are around \$150,000 per year.

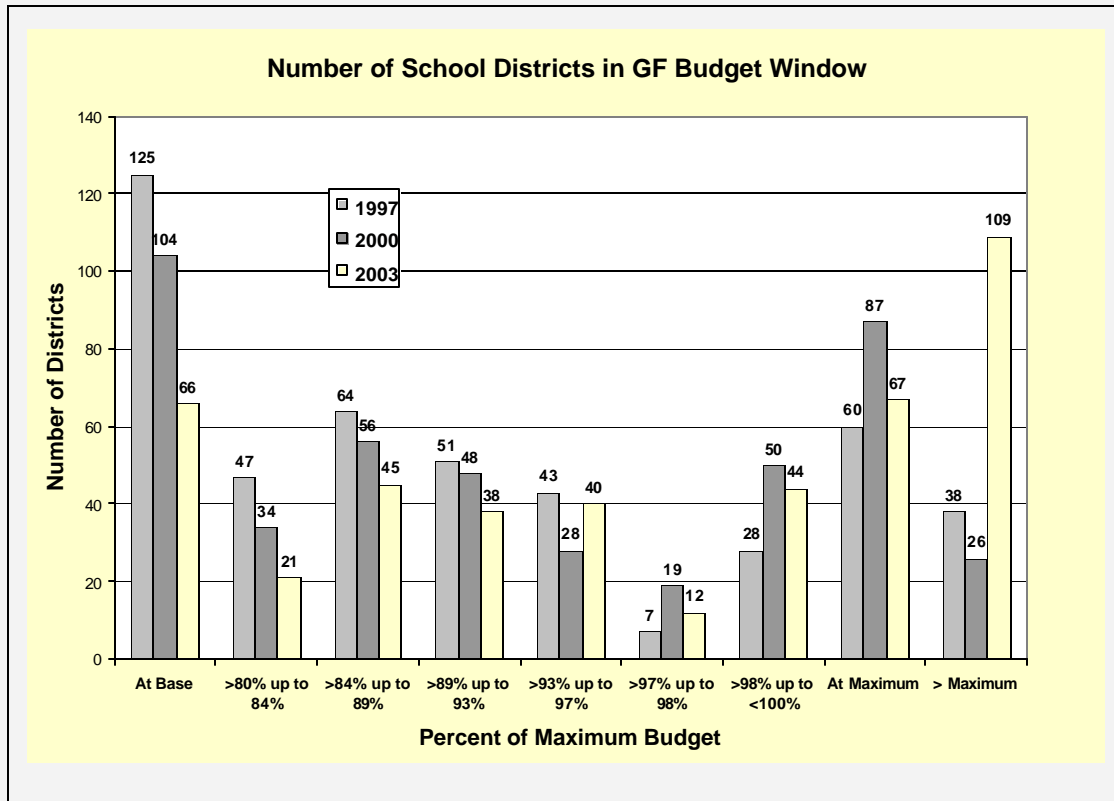
LFD ISSUE

The cost to the state in fiscal 2005 of the averaging proposal is \$7.1 million. The proposal requires that averaging be applied in districts with declining enrollment and increasing enrollment. The cost in the 2007 biennium is expected to be \$21 million.

The proposal also eliminates so-called "soft caps" instituted in SB390 passed in 2001 legislative session. Beginning in fiscal 2002, soft caps allow a district to exceed its maximum general fund budget for up to 5 years, upon voter approval.

**LFD
ISSUE
(continued)**

As shown in the figure, in fiscal 2003 there are 109 districts out of 448 that exceed their maximum general fund budget.



Under the proposal, each district would be required to budget at a level no greater than the maximum associated with its three year averaged ANB in fiscal 2005. Certain districts that were above their maximum budget in fiscal 1993 when HB 667 was passed will not be required to comply with the elimination of soft caps. Some districts may find it difficult to find savings. In fiscal 2003, the amount by which the average district exceeds the maximum general fund budget is 9.1 percent. Twenty-four districts exceed their maximum budget by 20 percent or more. The legislature may want to phase in the elimination of soft caps to allow these districts to adjust to lower spending requirements. The proposal to eliminate soft caps does not affect state general fund costs.

DP 8220 - Advisory Council: Transportation & Some HB 124 - This proposal combines several of the recommendations of the Advisory Council on School Funding. It includes:

- Simplifying the schedule for state and county reimbursements to school districts for school transportation. Current law distributes transportation aid based on weighted ridership and bus size. This proposal would eliminate weighted ridership as a basis for distributing transportation aid, but retain bus size. The proposal also increases the "base" mileage rate to \$0.95 per mile from \$0.85 per mile for the smallest bus size. The November ridership count is eliminated. This proposal would cost approximately \$1.7 million per year in fiscal 2004 and 2005 and would be matched by an additional \$1.7 million per year increase in county transportation requirements.
- Retaining one-half of HB 124 block grants to district transportation funds in the state general fund. This saves the state approximately \$1.7 million per year in HB 124 block grants in fiscal 2004 and fiscal 2005.
- Expanding the school facility entitlement program by allowing reimbursement for bond issues sold before July 1, 1991. The proposal would increase the state equalization ratio for all school debt service, which in effect increases the state GTB

subsidy for debt service on facilities. School facility entitlements would also be increased. The executive estimates this would cost the state general fund approximately \$3.99 million in each year of the 2005 biennium.

- o Retaining all HB 124 block grants to district's debt service accounts in fiscal years 2004 and 2005. This saves the state approximately \$3.99 million per year during the 2005 biennium.
- o Combining HB 124 block grants for the following district accounts: adult basic education, building reserve, bus depreciation, tuition and non-operating accounts. The state general fund will not be affected by this proposal.

LFD COMMENT

This set of proposals has no effect on the state general fund balance in fiscal 2004 and 2005. The state retains the same amount in HB 124 block grants as it spends in transportation and school facility reimbursements. Also, statewide, the net effect on property taxes is zero. For the transportation proposal, county transportation property taxes statewide will increase by \$1.7 million, and district transportation property taxes statewide will fall by \$1.7 million. For the school facility proposal, the loss of HB 124 block grants will increase district property taxes statewide by \$4.0 million. Increasing the school facility GTB ratio and school facility entitlements, and extending coverage to pre-1991 bonds will decrease district property taxes statewide by \$4.0 million.

However, each proposal will shift property tax burdens between counties and between districts. Districts that receive relatively large HB 124 block grants under present law may receive relatively less in transportation or school facility reimbursements under the new system, and thus will have to increase property taxes to make up the difference. This is because HB 124 block grants tend to go to districts and counties that are relatively wealthy since a large portion of HB 124 block grants are reimbursements for business equipment property tax reductions enacted during the late 1990's. Thus, in many cases HB 124 block grants go to districts with a large amount of commercial property and few children.

Under the proposal, the transportation HB 124 block grant money will become state transportation aid and will now go to districts with relatively larger transportation needs, i.e. districts with many children, whose property tax needs may fall as a result. Districts with relatively few children that receive relatively large HB 124 block grants will see their property tax needs increase. The school facility HB 124 block grants will become state school facility reimbursements and will go to less wealthy districts or districts with larger school facility debt service needs. Property taxes in these districts may fall as a result. Districts with few children and smaller projects that under present law receive relatively large HB 124 payments will have to increase property taxes.

HB 124 block grants are skewed toward smaller schools with relatively large property bases. For instance, the median block grant in the district general fund is \$305 per ANB. Half of all districts have block grants below this amount. For the districts with grants below this amount the lowest block grant is \$3 per ANB. For the districts with grants above this amount, the highest block grant is \$3,537 per ANB. Approximately 50 percent of district general fund block grants are distributed to only 31 percent of ANB.

DP 8230 - Teacher Loan Repayment Program (Requires Legislation) - This proposal establishes a student loan repayment assistance program for Montana teachers with certification or endorsement to teach in critical geographic and endorsement shortage areas. The Board of Public Education will provide definitions for this program. Loan repayments would be limited to \$3,000 per teacher per year for a maximum of four years. The proposal is expected to cost \$330,000 in fiscal 2004 and \$660,000 in fiscal 2005

DP 8240 - Fund Switch Treasure State Endowment Program to General Fund - This proposal diverts over \$4 million per year, or 50 percent of Treasure State Endowment Program (TSEP) interest to a new school facility state special revenue account to expand school facility obligations of the state. The money would be used in conjunction with DP 8220 to finance extension of the school facility reimbursement program to districts with pre-1991 bonds, and to increase school facility entitlements and the state school facility GTB match. TSEP interest is currently used by cities and counties for water and sewer projects. See the Treasure State Endowment Program in the long range building section for the impacts of this proposal on water and sewer projects for cities and counties.

**LFD
ISSUE**

The proposal reduces TSEP interest revenue for use on water and sewer projects for cities and counties by approximately \$8 million in the 2005 biennium. Beginning in the 2007 biennium, the amount of interest withdrawn for school facility purposes will be \$4.36 million.

DP 8250 - Reallocate Timber Revenue to BASE Aid (Requires Legislation) - Under present law in fiscal 2004, timber revenues on school lands from production in excess of 18 million board feet per year are to be deposited in the guarantee account and reserved for payments to schools to be used for technology purchases in fiscal 2005. This proposal would continue to deposit timber revenues into the guarantee fund but the money would be used for BASE aid in fiscal 2004 and 2005, as was done in fiscal 2003.

DP 8270 - Retirement Fund Changes - This proposal changes accounting law for district retirement funds so that the district general fund charges only its retirement costs to the retirement fund. The proposal requires the fund that generates the salary cost to pay for the retirement costs associated with the salary cost. The proposal is expected to reduce state general fund GTB costs for the district retirement funds by \$4.3 million in fiscal 2004 and by \$3.6 million in fiscal 2005.

**LFD
ISSUE**

Under the proposal, district and federal budgeted and non-budgeted funds will be required to pay their own retirement costs in the county retirement fund. Primary district funds that will be affected are the transportation fund and the adult education fund. The primary federal funds are the miscellaneous programs fund and the school food services fund. The proposal is expected save taxpayers statewide \$12.4 million in fiscal 2004 and \$9.8 million in fiscal 2005 through reductions in property tax requirements in the countywide retirement accounts. However, after taking on this new retirement obligation, a district will either have to reduce services or replace the district monies expended on retirement costs with other district revenues, primarily property taxes. It is expected that district property taxes will increase statewide by \$2.7 million in fiscal 2004 and by \$2.8 million in fiscal 2005.

The effect of the proposal may give incentive to districts to shift salaries into the general fund from other funds and shift operating expenses from the general fund to other funds. The services funded from federal sources will be below what they otherwise would have been. However, federal funds are growing fast and actual service cuts from the prior year may not be necessary.

The federal Elementary and Secondary Education Act prohibits the use of federal funds to supplant or replace local funds. By requiring federal funds to pay for retirement costs which in the prior year were paid for out of the county retirement fund it is possible that the retirement proposal would be ruled as a replacement of federal funds. However, most states already do this, so it may be possible to obtain a variance.

DP 8280 - School Entitlement Increases and Reduction in Direct State Aid Percentage - This proposal increases school district basic and per-ANB entitlements by two percent in fiscal 2004 and by one percent in fiscal 2005. The proposal also decreases the direct state aid percentage from 44.7 percent to 42.6 percent. Base aid costs are expected to increase above present law by approximately \$0.8 million in fiscal 2004 and by \$5.2 million in fiscal 2005.

**LFD
ISSUE**

The table below shows the new basic and per-ANB entitlement amounts compared with those under present law.

School District Entitlements - Present Law and Proposed Law				
	Fiscal 2004 Present Law	Fiscal 2005 Present Law	Fiscal 2004 Proposed	Fiscal 2005 Proposed
Basic Entitlements				
Elementary	\$ 19,244	\$ 19,244	\$ 19,629	\$ 19,825
Percent Change		0.0%	2.0%	1.0%
High School	\$ 213,819	\$ 213,819	\$ 218,095	\$ 220,276
Percent Change		0.0%	2.0%	1.0%
Per ANB Entitlements				
Elementary	\$ 3,906	\$ 3,906	\$ 3,984	\$ 4,024
Percent Change		0.0%	2.0%	1.0%
High School	\$ 5,205	\$ 5,205	\$ 5,309	\$ 5,362
Percent Change		0.0%	2.0%	1.0%
Base Budget Components				
Direct State Aid	44.7%	44.7%	42.6%	42.6%
Guaranteed tax base aid	35.3%	35.3%	37.4%	37.4%

Under the proposal, districts that are not GTB eligible, and many that are GTB eligible, will receive less state Base aid than under present law in fiscal 2004. State mandated base property taxes in the district general fund will increase. The average district will receive slightly more in state base aid than under present law in fiscal 2004.

Compared with state base aid in fiscal 2003, under the proposal base aid in fiscal 2004 will decline by \$6.3 million. Approximately 350 districts will experience reductions in Base aid, and thus will experience equivalent increases in mandated base property taxes in fiscal 2004. The average reduction in base aid is 2.1 percent for those districts that receive less Base aid in fiscal 2004 as compared with fiscal 2003. For those that receive more base aid in fiscal 2004 than in fiscal 2003, the average increase in Base aid is 1.6 percent.

DP 8290 - Adjust HB 124 Block Grants (Requires Legislation) - This proposal delays growth in block grants for districts and for the county school transportation and school retirement accounts. The present law growth rate for both district and countywide block grants is 0.76 percent per year. The proposal also adjusts fiscal 2004 block grants to the county education accounts for reporting errors made in fiscal 2001, which the block grants were initially based on.

**LFD
COMMENT**

School district block grant savings to the state general fund as a result of this proposal are \$403,490 in fiscal 2004 and \$810,046 in fiscal 2005. District general fund GTB will increase by \$131,756 in fiscal 2004 and by \$260,899 in fiscal 2005.

Block grants to the countywide transportation and retirement accounts will decline by \$92,098 in fiscal 2004 and by \$184,895 in fiscal 2005. However, legislation will be offered to revise fiscal 2003 countywide block grants upward due to reflect more accurate data for actual receipts of revenue in these funds in fiscal 2001, the year HB 124 block grants were based on. These adjustments will add \$188,733 to countywide block grants in each year of the 2005 biennium.

Other Issues

Reduced Spending Options

The legislature may want to consider the following options to save or enhance state general fund balances:

- Reduce direct state aid percentage to its initial value in fiscal 1993 of 40 percent. This saves state general fund \$17.9 million in each year of the 2005 biennium. This amount is net of GTB backfill. The proposal would reduce payments to all districts, and would require an equivalent increase in Base mandatory property taxes. Wealthy districts would lose relatively more than less wealthy districts, and thus would experience the largest property tax increases.
- Reduce the statewide GTB guarantee level from 175 percent to 150 percent. This saves state general fund \$14.8 million each year of the 2005 biennium. Mandatory Base property taxes would increase by the same amount. The proposal would reduce GTB payments to the poorest districts the most. Wealthy districts would not be affected.
- Eliminate HB 124 block grants to districts - This saves the state nearly \$54 million in each year of the biennium. However, offsetting increases in GTB would backfill approximately \$17.5 million in each year of the biennium. The net impact of this proposal is state savings of \$36.5 million in each year of the 2005 biennium. Mandatory Base property taxes would increase by \$36.5 million per year statewide. The proposal would reduce HB 124 block grants to relatively wealthy districts and these districts would see the largest tax increase. The impact on less relatively wealthy districts would be mitigated by GTB backfill.
- Increase the stop loss ANB amount to 2,000 ANB from 1,000 ANB for elementary districts, and to 1,600 ANB from 800 ANB for high school districts. The ANB stop loss amount is the amount of ANB above which reductions in the per-ANB entitlement are eliminated. This would save the state general fund approximately \$6 million per year during the 2005 biennium. Property taxes statewide would increase by the same amount. Almost all of reductions in state Base aid, and the increases in property taxes, would impact only large schools districts.
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